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INTRODUCTION

4Child Care Unlimited entered into contract number 4C-02-25001-2 with the Michigan Family Independence Agency (FIA) to provide child care referral, child care resource coordination, recruitment, provider support, outreach, and Project Zero child care specialist services. 4Child Care Unlimited was reimbursed for actual costs incurred for providing these services through submission of monthly billings to FIA. The original contract totaled \$712,274, and covered the period October 1, 2002 through September 30, 2004.

SCOPE

The Office of Internal Audit performed an audit of 4Child Care Unlimited to determine if the agency's billings were accurate, and if costs billed were allowable and properly supported by the accounting records and other relevant documentation, in accordance with the terms of the contract. Our audit covered the period October 1, 2002 through August 30, 2004. Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors, except that compliance with Standards 2200, Engagement Planning, and 2300, Performing the Engagement, were limited as follows: consideration of significant risks to the activity and adequacy and effectiveness of activity's risk management and control systems was limited to those relevant to performance of duties related to 4Child Care Unlimited's contract with FIA and those relevant to documenting the expenses billed to FIA. We did not consider significant risks and adequacy and effectiveness of the risk management and controls systems of 4Child Care Unlimited's entire operation.

EXECUTIVE SUMMARY

Based on our audit, we conclude that 4Child Care Unlimited did not use an acceptable method of allocation for charging salaries and fringe benefit costs to FIA.

We also noted that the PZ Coordinators were not housed at FIA offices, as required by the contract.

Our report recommends that the Children's Services Administration ensure that 4Child Care Unlimited uses an appropriate time keeping system to prepare their billings for salaries and fringe benefits, and houses their PZ coordinators at the FIA local offices.

AGENCY RESPONSE

The management of 4Child Care Unlimited has reviewed all findings and recommendations included in this report. They indicated in a telephone conversation on February 3, 2005 that they are in general agreement with the findings have taken corrective action.

FINDINGS AND RECOMMENDATIONS

Salaries and Fringes

1. 4Child Care Unlimited did not properly document employees' time and activity for each of the contracts per federal requirements. Federal Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, states in part "Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professional and non-professional) whose compensation is charged, in whole or in part, directly to awards....The reports must reflect an *after the fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify

as support for charges to awards. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.”

All 4Child Care Unlimited employees’ salaries were billed to their funding sources based on the percentage in the contract budget from October 1, 2002 through March 31, 2004. However, the employees did prepare time sheets for daily time worked. In April 2004, the agency employees began keeping time sheets by program and activity, but the billings were not prepared using the hours recorded on the time sheets. 4Child Care Unlimited had adequate documentation that their employees performed the services required by the contract, and the amounts charged for each employee appeared reasonable. Therefore, we are not recommending recoupment of any amounts 4Child Care Unlimited billed for salaries and fringes.

WE RECOMMEND the Children’s Services Administration ensure that 4Child Care Unlimited bills for salaries expense based on the actual time reported on their employees’ time sheets.

PZ Coordinator

2. The PZ Coordinators were not housed at the FIA office, as required by the contract. The PZ Coordinators attended the orientation sessions that the FIA customers were required to attend at the FIA office, Work First office, or other locations. The PZ Coordinators provided day care information, as well as information on becoming a licensed day care center or home provider at the orientation sessions. Three of the PZ Coordinators had a home office, where a phone, fax and computer were provided to them to process Child Care Referrals. The other 3 PZ Coordinators were stationed at

the Flint 4C office. Therefore, they were not always on-site to provide assistance to clients when they came into the local office.

WE RECOMMEND the Children's Services Administration work with the local offices and 4Child Care Unlimited to ensure that PZ Coordinators are on-site at the local offices when needed.